LOAN MODIFICATION OPTION

The Loan Modification Option provides for either a permanent change in one or more of the terms of a Borrower's loan, which allows a loan to be reinstated and results in a payment the Borrower can afford. Ref: Mortgagee Letters 2000-05, 2005-30, 2008-21 and 2009-35.

<u>FACTS</u>

- A permanent change in the interest rate.
- All or a portion of the Principal, Interest, Taxes and Insurance arrearage may be capitalized to the mortgage balance.
- Legal fees and related foreclosure costs for work actually completed and applicable to the current default episode may be capitalized into the modified principal balance. Refer to Mortgagee Letter 2005-30 for allowable attorney fees.
- Re-amortize the total unpaid amount due over a 360 month period from the due date of the first installment.
- The date the Lender approves the Loan Modification (all verification completed and servicing notes documented, reported to SFDMS) is the date that Lenders are to use in determining the interest rate.
- Lenders shall reduce the Loan Modification Note Rate to current Market Rate. HUD considers Market Rate to be no more than **50 basis points** greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming mortgages (US average), rounded to the nearest 1/8th of one percent (0.125%), as of the date the Modification Agreement is executed. Freddie Mac website at http://www.freddiemac.com/pmms/ and the Federal Reserve Board includes the average 30-year survey rate in the list of Selected Interest Rates that is publishes weekly in its Statistical Release H.15 at http://www.federalreserve.gov/releases/h15/
- When establishing a Loan Modification, it is acceptable for Lenders to include all payments due including an additional month.
- Late fees associated with the current default episode should be waived.
- No administrative fees for completing the Loan Modification documents can be passed on to the Borrower.
- The modified principal balance may exceed the principal balance at origination.
- The modified principal balance may exceed 100% loan-to-value.
- All Loan Modifications must result in a fixed rate loan.
- The Loan Modification must fully reinstate the loan.
- Subsequent defaults are to be treated as a new default.

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ELIGIBILITY

- Minimum of 12 months elapsed since loan origination date.
- The Borrower must be 61 days delinquent (three full payments due and unpaid) or more.
- Default due to a verifiable loss of income or increase in living expenses.
- The Loan Modification mortgage must remain in first lien position.
- Loan may not be in foreclosure when executed.
- Owner-occupant, committed to occupying property as primary residence.
- Borrower has stabilized surplus income sufficient to support the Loan Modification mortgage.
- Does not have another FHA-insured mortgage.

PROCEDURES

(1) Lender is required to assess the Borrower's financial condition.

(2) Lender is to perform a retroactive escrow analysis at the time the Loan Modification to ensure that the delinquent payments being capitalized reflect the actual escrow requirements required for those months capitalized.

(3) Lender must verify the property has no adverse physical conditions.

(4) Home repair costs may not be calculated into the Loan Modification.

(5) Lender must comply with State and Federal disclosure laws or notice requirements, including whether recordation is necessary to maintain first lien position requirement.

(6) Loans reinstated using a Loan Modification within the past three years requires written justification prior to a subsequent Loan Modification.

(7) Subsequent reason for default cannot be related to the previous reason for default.

If you have any question you may contact NSC at:

National Servicing Center
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/nschome
E-mail: hsg-lossmit@hud.gov
1-877-622-8525

Frequently Asked Questions:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/faqnsctc